



MEMORANDUM

To: Members of the Investment Committee
California Public Employees' Retirement System

Date: August 15, 2011

From: Pension Consulting Alliance, Inc. (PCA)

RE: Emerging Manager Program – Real Estate

In our capacity as Real Estate Consultant to the Board, Pension Consulting Alliance, Inc. (PCA) has reviewed Staff and Crosswater Realty Advisors' proposal for an Emerging Manager Program (EMP) within Real Estate.

As discussed in the Strategic Plan for Real Estate presented to the Investment Committee in February 2011, the Real Estate staff planned to evaluate a program within the Domestic Tactical sector for Emerging Managers.

Staff is proposing an EMP that will have two over-arching objectives:

1. Increase access to investment opportunities consistent with the Strategic Plan that may not otherwise be identified; and
2. Increase diversity among the pool of investment advisors.

Under Staff's proposal, an Emerging Manager is defined as an investment manager with (a) less than \$1 billion in assets under management and (b) has sponsored less than four investment funds or pools of capital.

CalPERS has a long history in supporting Emerging Managers that fit this definition. However, there has been no overarching strategy or guiding principles behind the pursuit of these prior investments. Furthermore, investment performance has not been uniformly successful and governance has not been consistent.

Staff is, therefore, proposing a small program that is more targeted in hopes that performance can be more consistently successful and appropriate risk management and oversight can be implemented.

PCA concurs with the proposed EMP as long as there is adherence and consistency with the objectives and goals of the Strategic Plan and Investment Policy. Furthermore, CalPERS must maintain its undiluted fiduciary duties to its beneficiaries and must also ensure that commitments within the EMP achieve this requirement.



Respectfully,



Paul Mouchakka

Managing Director